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Effect of Financial Crisis on Firm Performance in Malaysia

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Abstract

The purpose of conducting this research is to analyse the relationship between financial crisis and performance of the 14 consumer services listed firms in Bursa Malaysia main market. The period chosen in this research covers from 2015 to 2019, which is 5 years in total. Generally, firms' value that obtained through the ratio of return on total asset (ROA) serves as the dependent variable in this research. Two independent variables involve in this research are debt ratio and debt to equity ratio.

Keywords: Firm Performance, Financial Crisis, Consumer Services Listed Firms.

Introduction

Firstly, according to Kenton (2021), the value of asset decreases rapidly during financial crisis, companies and customers failed to repay their liabilities, and shortages of liquidity are faced by the financial institution. This mean that the debt of the company would increase during financial crisis. Thus, the company may face with the challenges in term of the profitability and leverage as the profit may decrease but increase in leverage. Besides, the researcher also mentioned that the investors of company may withdraw their money and sell their shares to prevent the loss as they noticed that the performance and value of the company may get negative effect during financial crisis. Thus, this study show that debt experienced a significant relationship with firms' value.

In this study, firms that are going to be observed are the consumer services company that reported on the Bursa Malaysia main market. Debt of the firms will be observed and calculated based on the leverage ratio which is debt ratio and debt to equity ratio. According to Hayes (2021), debt ratio act as a financial ratio to measure the company's leverage and is defined as the percentage of a company's debt-funded assets. It is obtained by dividing the total liabilities by total assets of company. Besides, Bloomenthal (2021) stated that debt to equity ratio accounts for the percentage between a corporation's equity to debt used to finance its properties and indicates the degree to which shareholder equity will satisfy its commitments to creditors in the event of a market loss. It can be computed through dividing the total liabilities of the company by the amount of total shareholder equity.

Firm performance will be observed through the calculation of profitable ratio which is return on total asset (ROA). Based on the research of Hargrave (2021), ROA can be act as the